

VZCZCXRO3161  
PP RUEHBC RUEHDE RUEHIHL RUEHKUK  
DE RUEHGB #3215/01 2671828  
ZNY CCCCC ZZH  
P 241828Z SEP 07  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC PRIORITY 3545  
INFO RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003215

SIPDIS

SIPDIS

E.O. 12958: DECL: 09/24/2017

TAGS: ECON PHUM I2

SUBJECT: SWORDS INTO PLOWSHARES: EMPLOYEES RESURRECT ANBAR  
INDUSTRIAL PARK

BAGHDAD 00003215 001.3 OF 003

Classified By: Classified by EPRT Falluja Team Leader Stephen Fakan for  
reasons 1.4(B) and (D)

¶1. (C) SUMMARY. Just outside the Anbar town of Faris, the employees of a state-owned (SOE) steel plant stepped up after the 2003 Gulf War and, completely on their own, kept the shop running. Today, against the odds, they continue to produce an array of high-quality steel products and may soon be in the running for Department of Defense contracts. While lagging demand, power provision, aging equipment and unrest remain obstacles to returning the plant to full capacity, procurement initiatives and technical expertise provided by Department of State embedded Provincial Reconstruction Team (ePRT) and Department of Defense Civil Affairs Groups (CAG) leave management and employees optimistic they can expand production, attract investment and ensure a stable source of skilled employment for the Fallujah area. END SUMMARY.

-----  
Background  
-----

¶2. (C) In 1982, the Iraqi Ministry of Industry founded the Al Ilka, a Industrial Park to manufacture high-quality 122 mm artillery for Saddam Hussein's Army. The four-factory complex was designed to process military-grade high and medium alloy steels, particularly chromium molybdenum alloys, and produced all the weapon's components, including combat optics. It was the only factory of its type in Iraq and, at its peak in the mid-1980s employed 1,700 people and assembled approximately 100 guns yearly, with the capacity for double that number. The Iraqi Ministry of Defense was the plant's sole end-user; apparently none of the weapons was ever exported.

¶3. (U) During the First Gulf War, Coalition air strikes destroyed the plant's buildings but spared the machinery, which management had ordered moved into the surrounding countryside. After the war, the complex was completely rebuilt only to be partially destroyed again during the 2003 Gulf War. Management blames much of the damage done during the latter conflict on what they describe as the Marine's heavy-handed billet at the plant.

-----  
The Town of Faris  
-----

¶4. (C) Located near the banks of the Euphrates River 20 kilometers south of Fallujah, the town of Faris (current population 45,000) was significantly improved under Saddam, s regime to provide a comfortable standard of living to the management and technical staff of the nearby armaments factory. Although located in predominantly Sunni Anbar

province, Faris had a mixed Sunni/Shi,a population and the current Managing Director, Akram Shakir, is quick to note his two predecessors were both Shi,a. He adds that all had worked together to refurbish the Al Ika,a plant after the Second Gulf War. This peaceful coexistence ended after the February 2006 Samarra Mosque bombings when most of Faris, Shi,a population fled the violence that engulfed Al Anbar.

-----  
The Employees Take Over  
-----

¶5. (C) After the end of the Second Gulf War, on their own initiative employees elected senior managers, refurbished approximately 70 percent of the plant's aging and weather-worn equipment and set the complex on a peacetime orientation. Today 90 percent of plant production, which includes industrial conveyor belts, stainless steel cooling towers, industrial hoppers, cam shafts and heavy duty sprockets is destined for the domestic cement industry. Refurbishing heavy machinery accounts for the balance of the firm's business, which Managing Director Shakir says amounts to USD 150,000 monthly. He adds the factory breaks even despite the fact that, in addition to paying its 1,300 full-time employees, under Iraqi law it must also provide a type of unemployment compensation called a "Basic Salary" to 3,000 individuals previously affiliated with the complex. According to Shakir, the plant operates at 10 percent production and 20 percent employment capacity. He adds that the Ministry of Industry and Minerals still owns the Al Ilka,a complex, but the factory has not received a penny in state support in four years. (NOTE: In a process not known for its transparency, The Ministry of Industry and Minerals apportions a mere USD 33 million among Iraq's 250 parastatals. It may be that that Al Ilka,a is simply being overlooked. END NOTE)

BAGHDAD 00003215 002.2 OF 003

-----  
Challenges--Inadequate Power Supply and Lagging Demand  
-----

¶6. (C) Electricity provision remains the single biggest challenge to the firm's growth. The Fallujah Central Power Station is the plant's primary power source, and the firm uses two aging diesel generators, with a combined 2.25 megawatt capacity, to provide back up. Typically the firm cannot rely on its primary power because distribution is centrally controlled from Baghdad and allocations are often made without regard to actual local requirements. Another problem is that Iraq's electrical infrastructure is tapped by countless private users who siphon off power, and allocations that are made often arrive at their destination with as little as 20 percent of the initial voltage. Al Ilka,a spends much of its time operating on back-up power in "brown out" conditions.

¶7. (U) Four cement factories located in Al Anbar province are the firm's principal end-users. Managing Director Shakir complained that the central government has not encouraged cement producers from other parts of Iraq to purchase and refurbish machinery through the Al Ilka,a plant and added these orders often go abroad, needlessly.

¶8. (U) On the day the Fallujah ePRT visited Al Ilka,a, employees staged a short strike in support of 720 Provincial Security Forces (PSF) members from the Farris-Ameriyah area who were being laid off by the Iraqi Ministry of the Interior after five months of service. PSF were recruited based on tribal affiliation but the Iraqi Ministry of the Interior provided equipment, basic military training and a USD 1200 stipend during the PSFs final two months of duty. Tribal imperatives and bureaucratic incompetence in Baghdad ensured that more fighters than necessary were retained. Because the Coalition Forces (CF) provided support for the

program, the view among many Al Ilka,a employees is that CF can ensure the young men continue as PSFs. International Relief and Development (IRD) a local USAID contractor, has offered the young men employment opportunities maintaining canals and roads. None accepted this offer, but the group sent the IRD representative a letter stating they would consider working on tree planting projects. If employment opportunities are not forthcoming, management and staff fear these young men may join insurgent groups and threaten the area's fragile stability. Shakir, a previous chairman of the Ferris-Ameriyah city council, was particularly concerned he would be singled out for reprisals. (PSF issues reported septel.)

-----  
ePRT Support--Equipment and Expertise  
-----

¶9. (U) In a late July meeting, ePRT Fallujah and Regional Combat Team 6 CAG outlined initiatives designed to increase and diversify production, modernize the plant,s energy supply and boost the number of skilled employees. EPRT members will submit through the Commander's Emergency Relief Program (CERP) discretionary funds controlled by the combatant commander) a funding request, based on competitive bidding conducted by Al Ilka,a, for twin 2 Megawatt generators. The additional power will accommodate advanced welding stations necessary for anticipated growth and any excess power can be re-directed into the Faris electrical grid. The generators will operate using heavy fuel oil (a byproduct of the refining process) which the Al-Bayji refinery, located near Kirkuk, can provide at extremely competitive cost. Al Ilka,a management will maintain the generators, transport the fuel and store it.

¶10. (U) At the meeting, ePRT members also explored the plant,s structural steel production potential and concluded they were excellent. With minor capital upgrades, Al Ilka,a could produce high-demand structural steel items like bridge components, radio towers and highway guardrails. EPRT experts estimate this could create hundreds of new skilled jobs at the factory and that the US Department of Defense could become a client. Management also asked ePRT personnel to press the Ministry of Industry and Minerals for a firm commitment to provide Al Ilka,a a "first refusal" for any supply and refurbishment work cement producers in other parts of Iraq require.

-----  
Comment  
-----

¶11. (U) In the four years since the end of the Second Gulf War, Al Ilka,a management and employees have done an extraordinary job of remaining operational and re-orienting

BAGHDAD 00003215 003.2 OF 003

plant production toward peacetime demand. Al Ilka,a has capabilities unique in Iraq and should be able to adapt its technology to facilitate reconstruction efforts and jump-start growth in industries up and down the production stream. In this respect, EPRT and CAG support arrives at a crucial time and may be the key to ensuring the plant,s future success. The team's local and professional expertise allowed it to recognize the enterprise's potential, reach out to plant management, provide guidance across a range of disciplines (from metallurgy to bookkeeping) and tap USG resources to facilitate future growth. The synergy of USG expertise and the "self starter" attitude at Al Ilka,a are the best hope for creating skilled employment opportunities that are the key to a stable future for Fallujah.

¶12. (C) Al Qaeda Iraq (AQI) and insurgent groups remain operational throughout the province and a resurgent Al Ilka,a could be a target for infiltration and other operations. But the dramatic improvement in security and

the need to build on these gains through economic development projects suggests this is a risk worth taking. To date Coalition Forces report no AQI activity at Al Ilka'a and the EPRT is looking at ways to ensure this continues, perhaps by linking USG support with regular output inspection and a requirement that current and future employees receive background checks.

CROCKER